

**Internal Control Assessment
Allowance for Doubtful Accounts Maintenance**

Purpose

To ensure that FSA's internal control policies and standards regarding treatment of doubtful accounts comply with policies established by OMB Circular A-129.

Background

In accordance with OMB Circular A-129, FSA must establish an adequate reserve for estimated uncollectible debt amounts. The amount of estimated reserves for uncollectible debt is posted to an account titled "Allowance for Doubtful Accounts." All write-offs must be made through this allowance account and under no circumstances should debts be written off directly to expense.

Write-offs are mandatory for delinquent debts older than two years unless documented and justified to OMB in consultation with Treasury. Once the debt is written-off, the FSA must either classify the debt as currently not collectible (CNC) or close out the debt. Cost effective collection efforts should continue, specifically, if FSA determines that continued collection efforts after mandatory write-off are likely to yield higher returns. In such cases, the written-off debt is not closed out but classified as CNC. The collection process continues until the FSA determines it is no longer cost effective to pursue collection. At that point, the debt should be closed-out.

During the period debts are classified as CNC, FSA should maintain the debt for administrative offset and/or other collection measures until:

- The debt is paid or
- The debt is closed out or
- All collection actions are legally precluded or
- The debt is sold.

Internal Control Standard

FSA must maintain and adjust its reserve for estimated uncollectible debt amounts.

Assessment of FSA's Compliance*

We held several meetings with FSA staff and determined that FSA has established an "allowance for doubtful accounts" account. However, we discovered that the allowance account is not adjusted in a timely manner. Furthermore, of the XX accounts two years delinquent, XX% had not been classified as uncollectible. After reviewing the documentation, we suggest FSA adjust their doubtful account balance quarterly.

* *The actual testing phase including interviews and examination of sampled records has not yet occurred. This write up is only a sample of what may be discovered during the testing phase of the FMFIA process.